



Agenda Item 6B.2 & 6B.3: Conceptual Framework: Elements – First Draft (partial) Chapter 5

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IPSASB Meeting

December 2- 5, 2013

Ottawa, Canada

(Acknowledgement: Paul Sutcliffe, Senior
Advisor, for preparation of agenda materials
and slides)

Objectives of this session

Review, agree and/or provide directions for further development of sections of Chapter 5 of the Conceptual Framework dealing with:

- Assets, Liabilities, ownership contributions, ownership distributions & recognition

Agenda Materials:

- 6B.2 Issues paper – First draft (partial) Chapter 5
 - Identifies changes to CF–ED2 resulting from those agreed in June and September 2013
 - Notes additional potential amendments
- 6B.3 Marked-up first draft (partial) Chapter 5
 - Based on CF–ED2. Marked-up to reflect directions of IPSASB in June & September 2013, consequential amendments & edits
- 6B.4 Extract of minutes of September 2013 meeting

Proposed Process

1. Work through 6B.3 section by section (or subsection)
 - Note paragraph numbers and contents pages to be updated for final approval
2. Introductory comment by staff or TBG to identify/explain:
 1. Key changes to the section/subsection and “consequentials”
 2. Areas of remaining concern
3. Discussion by, and directions from, Members

Proposed Process

All amendments to CF–ED2 are shown in mark-up. This includes

- Amendments agreed in September 2013
- Additional amendments proposed by staff as consequence and editorials
- Reflect that this is a draft of the final chapter – style and form issues
- Acknowledge in the BC views of respondents to CF–ED2
- Amendments proposed to respond to any other issues shown in boxed text

Section 1: Introduction

Agenda item 6B.3, page 4-5

Section 1 to be updated to reflect IPSASB decisions at Dec. meeting on:

- The identity of elements – whether deferred inflows and outflows are elements
 - Whether Framework to specify fin. statements in which each element is recognized
 - Whether Framework explains fin. statements may recognize items that are not elements
- **Note amendments made to:**
 - **Footnote 1:** to better align with Chapter 2 explanation of objectives
 - **Paragraph 1.10:** deleted to conform with IPSASB decision Framework not to include comparison with IASB and GFS equivalents
- **IPSASB DIRECTIONS**

Section 2 : Assets

Agenda item 6B.3, page 6-8

- **Para 2.1. Definition of asset agreed September 2013 as:**

An asset is a resource, ~~with the ability to provide an inflow of service potential or economic benefits~~ that an entity presently controls, and which arises from a past event.”

Staff propose further amendment to clarify expression & reflect “control” from past event:

- replace “and which arises from” with “as a result of”

An asset is a resource, ~~with the ability to provide an inflow of service potential or economic benefits~~ that an entity presently controls ~~and which arises from~~ as a result of a past event.”

- **Para 2.2: Explanation of a resource agreed September 2013**

- First sentence para 2.3 deleted as consequence (repetitive & different wording)

- **Other amendments to this section agreed September 2013**

- Paras 2.4, 2.6, deleted heading before 2.3, footer 3 re goods and services

- **IPSASB DIRECTIONS**

Section 3: Liabilities

Agenda item 6B.3, page 9

- **3.1 Definition of liability and present obligation (para 3.1&3.2) agreed September 2013, but...**

- Staff added to definition the phrase “*of an entity*” to link a present obligation to the entity:

A liability is a present obligation of an entity for an outflow of resources that arises from a past event ~~where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.~~

- Subject to IPSASB decision re definition of assets, replace “*arises from*” by “*results from*”?

- **Amendments as consequence of revisions to paras 3.1 & 3.2, to:**

- Many paras: to reflect liability is present obligation for outflow of resources & from past event
- Reposition para 3.13 as 3.3 – to bring these two features of a liability together
- Use “resources” when referring to characteristics of liability (eg para 3.3)
- Include additional explanation of “other binding obligation” (para 3.4, BC33&34 and more).
 - On reflection, staff propose using the term: “non-legally binding obligation”

– IPSASB DIRECTIONS

Section 3: Liabilities

Agenda item 6B.3, page 10-12

Little or no realistic alternative to avoid

- “little or” reinstated in para 3.2 and used throughout text (eg 3.11(c))
 - IPSASB deliberation re removal of this phrase noted at BC 31 (consider as review BC)

Legal obligation and political coercion

- Para 3.8 amended to remove term “political coercion”

Paras 3.11, 3.12: marked-up for consequential, editorials, consistency

Para 3.13: repositioned as 3.3

– **IPSASB DIRECTIONS**

Sections 4 & 5: Revenue, expenses, deferred inflows & outflows

Agenda item 6B.3 page 13-14

Sections 4 & 5 to be updated to reflect IPSASB decisions at Dec. meeting:

- The identity of elements – whether deferred inflows and outflows are elements
 - Whether specify financial statements in which each element is recognized
 - Whether financial statements may recognize items that are not elements
 - Measure(s) of financial performance to be reflected in fin. statements in GPFRs
- **Specific matters to revisit as noted in September 2013:**
 - Meaning of **Para 4.5** first sentence and its relationship to definitions of R and E:
 - Rev & expenses encompass all increases in net assets other than ownership contributions & distributions.
 - **Para 5.4:** use of stipulation, as defined in footnote 5 throughout chapter

• IPSASB DIRECTIONS

Sec 6: Net assets, net fin. position, ownership contrib'ns & distrib'n

Agenda item 6B.3 page 16-17

Section 6 to be updated to reflect IPSASB decisions at Dec. meeting

- Revisions to para 6.2 to be revisited after decision at December
- Revisions to para 6.5 agreed September 2013

Staff propose amendment to definition of ownership distribution

- Respondents to CF–ED 2 propose clarification of *external parties* in definitions b/c all distributions reduce net assets and therefore interest of owners therein
- Staff agree re ownership distributions and propose:

Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners that return or reduce an interest in the net assets of the entity.

- Staff not convinced similar amendment necessary (or works) for ownership contributions

• IPSASB DIRECTIONS

Section 7: Recognition

Agenda item 6B.3 page 18 and 19

Section to be updated as necessary to reflect IPSASB decisions at Dec. meet

- e.g on whether items other than elements may be recognized in fin.statements

Clarification of *existence uncertainty* as “distinct” recognition stage

Distinction b/w definition of element and recognition criteria of existence uncertainty is unclear? e.g:

- The focus of Para 7.3 is on determining whether the definition of an element has been satisfied
- BC 55 explains “...*existence uncertainty—whether an item meets the definition of an element*”

Staff is of view that **the “remedy”** is to change title of this recognition criteria to something like:

Uncertainty about the flows of service potential or economic benefits

- This reflects para 7.4 explanation that if element exists “...*uncertainty about the flows of service potential or economic benefits ... are taken into account in the measurement of that element.*”

(Uncertainty about other characteristics of an element are resolved in determining whether that element exists)

- **IPSASB DIRECTIONS**

Basis for Conclusions

- Staff propose moving through BC on section by section basis
 - Following slides note amendments to paras of the BC
 - Amendments that staff wish to speak to are highlighted in following slides

Section 1: Basis for Conclusions - Introduction

Agenda item 6B.3, page 20-21

Section 1 to be updated to reflect IPSASB decisions at Dec. meeting on:

- Identity of elements & whether Framework to specify financial statements for their recognition
- **Note amendments made to:**
 - BC 1&BC 2 to pick up consequentials and reflect this is a chapter of Framework
 - New para BC 3 to acknowledge IPSASB had considered whether Framework should specify the financial statements in which each element is to be recognized
 - This para to be revised to reflect the IPSASB's final decision on this matter.

• IPSASB DIRECTIONS

Section 2 : Basis for Conclusions - Assets

Agenda item 6B.3, page 21-26

- **Nature of Amendments to paras:**
 - BC4 – agreed September 2013, updated for editorials
 - BC5 – No change to CF–ED2
 - “Old” BC 5: deleted – style of final chapter
 - BC6– agreed September – boxed text: additional revisions proposed by staff to reflect satisfaction of definition and recognition are separate stages (to respond in part to concern of a TBG Member)
 - BC7, BC8, BC9 – agreed September 2013 plus editorials and note responses to CF-ED2
 - “Old” BC 10: deleted – repeat of para 2.6
 - BC11 to BC14 – no change to CF-ED2 except for editorials (BC11, BC 12)
 - BC15 & BC16- editorials, links to appropriate paragraphs and style of final chapter
 - BC17 – agreed September 2013
 - BC18 to BC 21 – editorials and to acknowledge responses to CF-ED2 received

• IPSASB DIRECTIONS

Section 3: Basis for Conclusions - Liabilities

Agenda item 6B.3, pages 26 - 31

- **Nature of Amendments to this section:**

- BC22 – editorials
- BC23 & BC24 – agreed September 2013
- **BC25 – amended in this draft to acknowledge nature of responses to CF-ED2**
- BC26 – agreed September 2013
- BC27 – no change to CF-ED2
- BC28 – agreed September 2013 + editorial (in lines 3/4)
- BC29, BC30– consequential editorials and to acknowledge responses to CF-ED2
- **BC30 boxed text: para to note IPSASB considered removal of “little or” in present obligation**
 - **Staff propose inclusion in next draft**
- BC31 to BC 35 – editorials, **remove duplication of text (BC 33)**, note responses to CF-ED2
- BC36 – agreed September 2013

– **IPSASB DIRECTIONS**

Sections 4 & 5: Revenue, expenses, deferred inflows & outflows

Agenda item 6B.3 page 31-35

Sections 4 & 5 to be updated for IPSASB decisions at Dec. meeting on:

- Identity of elements & whether Framework to specify financial statements for their recognition
- **Note amendments in this draft to section 4 and 5 paras:**
 - BC37 – to acknowledge that IPSASB considered whether Framework should specify financial statements for recognition of elements.
 - This para will be updated to reflect IPSASB decision. Currently based on CF–ED2 approach.
 - BC38 to BC46 – agreed September 2013, updated for para numbers & CF–ED2 responses
 - BC46 boxed text – para to note IPSASB considered DI & DO as elements of statement of Financial Performance. To be revisited following decisions at December meeting
 - BC47 to BC49 – amendments to BC49 agreed September 2013

• IPSASB DIRECTIONS

Sec 6: Net assets, net fin. position, ownership contrib'ns & distrib'n

Agenda item 6B.3 page 35-37

Section 6 to be updated to reflect IPSASB decisions at Dec. meeting on

- whether deferred inflow and outflow are identified as elements

Amendments to Section 6 in this draft

- BC50: amendment noted September 2013, to be revisited subject to decision this meeting
- BC53: agreed September 2013

- **IPSASB DIRECTIONS**

Section 7: Recognition

Agenda item 6B.3 page 37- 39

Section to be updated as necessary to reflect IPSASB decisions at Dec. meet

- On whether items other than elements may be recognized in fin.statements (e

Amendments to Section 7 in this draft

- BC54 – amended for editorial (terminology) & to acknowledge responses to CF-ED2
- BC55 – subject to IPSASB decision amend description of existence uncertainty in 2nd sentence and revise subsequent heading to read:
 - *Uncertainty about the flows of service potential or economic benefits*
- BC56 to BC61 – no changes to CF-ED2, except BC58 which was agreed September 2013
- BC62 & BC63 – agreed September 2013, except BC63 updated re responses to CF-ED2

• IPSASB DIRECTIONS

Alternative views, appendices and next steps

Agenda item 6B.3 page 12)

- Alternative views and appendices to be removed from final draft chapter
 - To reflect IPSASB decisions re style of final framework
- At next meeting proposed IPSASB will review further draft of Chapter reflecting IPSASB decisions at this meeting.
 - If additional mark-ups are extensive staff to prepare clean and marked-up draft chapter
 - Clean version to be reviewed at next meeting

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